

Message Text

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INFO OCT-01 ISO-00 SS-15 SP-02 MMO-01 L-03 EB-07 CU-02

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R 191345Z JUL 76

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 1034

INFO AMEMBASSY LA PAZ

AMEMBASSY SANTIAGO

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 6542

E.O. 11652: GDS

TAGS: PFOR, EXIM, PE

SUBJECT: PERUVIANS ARMS' ACQUISITION AND U.S. POLICY--CASP
ADDENDUM

REF: STATE 167112

1. AS REQUESTED IN STATE 167112 EMBASSY LIMA IS SUBMITTING ITS COMMENTS ON THE ISSUE OF HOW THE USG SHOULD RESPOND TO THE PROBLEMS CREATED BY PERU'S CONTINUING EXTENSIVE PROCUREMENT OF MILITARY EQUIPMENT. THE FOLLOWING COMMENT INCLUDING A MINORITY VIEW IS THE RESULT OF DELIBERATION BY THE MISSION'S CASP COMMITTEE, AND IT IS SUBMITTED IN THE FORMAT OF AN ADDITIONAL ISSUE TO BE INCLUDED IN THE FY 77-78 CASP FOR PERU.

2. STATEMENT OF ISSUE NO. 4

HOW SHOULD THE USG RESPOND TO THE GOP'S POLICY OF CONTINUING PROCUREMENT OF MILITARY EQUIPMENT? THESE PURCHASES ARE SEEN IN MANY QUARTERS AS DIVERTING FUNDS NEEDED FOR INTERNAL DEVELOPMENT TO UNWARRANTED MILITARY HARDWARE AND TO THE POSSIBLE STIMULUS
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OF A REGIONAL ARMS RACE.

3. IMPORTANT ASSUMPTIONS:

A. PERUVIAN DEFENSE EXPENDITURES ARE HIGHER THAN MIGHT BE EXPECTED GIVEN PERU'S CURRENT ECONOMIC PROBLEMS AND ITS AMBITIOUS ECONOMIC AND SOCIAL DEVELOPMENT PROJECTS. INTER-COUNTRY COMPARISONS ARE HARD TO DOCUMENT BUT BOTH PERU AND WHAT PERU'S MILITARY CONSIDER TO BE ITS PRIME EXTERNAL "THREAT", CHILE, APPEAR TO BE SPENDING FOR MILITARY PURPOSES AT HIGH LEVELS (IN 1974 \$21.50 PER CAPITA FOR PERU AND \$25.00 PER CAPITA FOR CHILE ACCORDING TO ACDA). THE CURRENT PERUVIAN BUDGET ALLOCATES 15.2 PERCENT FOR DEFENSE; WE SUSPECT THE REAL PERCENTAGE IS SOMEWHAT HIGHER BECAUSE OF HIDDEN BUDGET ITEMS. THE PORTION OF NATIONAL EXPENDITURES DEVOTED TO DEFENSE HAS NOT VARIED MUCH OVER THE PAST DECADE. SINCE, HOWEVER, THE PUBLIC SECTOR'S SHARE OF EXPENDITURES HAS GROWN DRAMATICALLY UNDER THE PERUVIAN SUI GENERIS SOCIALIST EXPERIMENT, DEFENSE SPENDING HAS INCREASED CONSIDERABLY IN ABSOLUTE TERMS OVER A DECADE AGO.

B. ALTHOUGH MILITARY EXPENDITURES INVARIABLY DRAW RESOURCES AWAY FROM ECONOMIC DEVELOPMENT, MOST PERUVIAN DEVELOPMENT PROJECTS HAVE CONTINUED DURING THE RECENT YEARS OF MOST INTENSE ARMS PURCHASES. UNTIL THE RECENT ECONOMIC CRISIS, WHICH LED IN JUNE 1976 TO THE FIRST REDUCTION OF INVESTMENT FUNDS, MOST DELAYS IN DEVELOPMENT PROJECTS WERE MORE ATTRIBUTABLE TO MANAGERIAL FAILURES, HOWEVER, THAN TO THE DIVERSION OF FUNDS TO THE MILITARY SECTOR. THAT DEFENSE EXPENDITURES HAVE NOT YET CUT MORE DECISIVELY INTO INVESTMENT SPENDING IS DUE IN PART TO THE FACT THAT MANY PERUVIAN PURCHASES, ESPECIALLY FROM NON-U.S. SOURCES, HAVE INVOLVED LITTLE IMMEDIATE CASH OUTLAY. GRACE PERIODS HAVE MEANT THAT DEBTS INCURRED IN THE FIRST YEARS OF THE 70'S WILL ONLY NOW BEGIN TO COME DUE. WE ANTICIPATE THAT AT LEAST THROUGH CY 1978 THERE WILL BE SEVERE BUDGETARY CONSTRAINTS, PARTICULARLY AFFECTING FUNDS AVAILABLE FOR INVESTMENT IN ECONOMIC DEVELOPMENT PROJECTS.

C. MILITARY EXPENDITURES GRATE OUR SENSITIVITIES IN A SPECIAL WAY BECAUSE OF THE PERUVIAN GOVERNMENT'S PLEA OF LACK OF FUNDS AS THE REASON FOR NOT MORE QUICKLY RESOLVING OUTSTANDING INVEST-
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MENT DISPUTES; THEY ARE ALSO UNPOPULAR WITH LARGE SEGMENTS OF THE PERUVIAN POPULACE. THE MILITARY HAS SEEIMINGLY EXEMPTED ITSELF FROM THE ECONOMIC SACRIFICES WHICH THE JUNTA GENERALS ARE DEMANDING FROM THE CIVILIAN SECTOR OVER AT LEAST THE NEXT TWO YEARS.

D. THE PRESENT SIZE AND DISPOSITION OF THE PERUVIAN MILITARY FORCES REFLECT A DIPLOMATIC/POLITICAL STRATEGY AS WELL AS THE USUAL MILITARY REQUIREMENT FOR INTERNAL ORDER AND NATIONAL DEFENSE. FOR DECADES PERU HAS VIEWED CHILE AS A POTENTIAL MILITARY ENEMY, A VEIW RECENTLY EXACERBATED BY THE FEAR THAT CHILE MIGHT UNI-

LATERALLY DECIDE TO GRANT TO BOLIVIA A CORRIDOR TO THE SEA THROUGH THE ARICA COASTAL STRIP. ALTHOUGH NOW CHILEAN, THIS AREA WAS FORMERLY PERUVIAN AND PERU HAS A RESIDUAL RIGHT GUARANTEED BY TREATY CONCERNING ANY CESSION OF THE AREA TO A THIRD COUNTRY (I.E. BOLIVIA). THE PERUVIAN MILITARY APPARENTLY VIEW ARMS PURCHASES AND THEIR DISPOSITION AS A BARGAINING COUNTER TO RESTRAIN THE CHILEANS FROM ANY MOVES LACKING PERUVIAN AGREEMENT. ECUADOR'S TERRITORIAL CLAIM TO DIRECT ACCESS TO THE AMAZON (THROUGH TERRITORY LOST TO PERU IN THE 1941-42 WAR), AND PERUVIAN SUSPICIONS OVER THE LONGER TERM ASPIRATIONS OF BRAZIL AS A CONTINENTAL POWER ARE ALSO CONCERNS UNDERLYING THE PERUVIAN RATIONALE FOR ITS DEFENSE POSTURE.

E. WE DO NOT BELIEVE PERU WILL INITIATE AN ATTACK AGAINST ANY OF ITS NEIGHBORS IN THE NEAR TERM. THE PROSPECT OF AN ACCIDENTAL BORDER INCIDENT IS REMOTE BECAUSE OF CONTINUING CONSULATIONS BETWEEN CHILEAN AND PERUVIAN BORDER COMMANDERS, BUT THE POSSIBILITY CANNOT BE RULED OUT. WE DO NOT ANTICIPATE AN ADVENTURIST PERUVIAN INITIATIVE AGAINST ANY OF ITS NEIGHBORS. NOTWITHSTANDING SOME REVANCHIST SENTIMENT AMONG THE OFFICER CLASS, THE COLLEGIAL GROUP OF GENERALS WHICH GOVERNS PERU IS TOO PRUDENT TO RISK A CONFRONTATION WITHOUT AN ABSOLUTE GUARANTEE OF PERUVIAN VICTORY. SUCH CONFIDENCE WILL BE HARD FOR THE PERUVIANS TO COME BY: ADDED TO THE OFFICERS' TRADITIONAL DOUBTS ABOUT THE FIGHTING GRIT OF THEIR UNEDUCATED RECRUITS IS THE GROWING GULF BETWEEN PERU'S CIVILIAN AND MILITARY SECTORS. THE MILITARY SHOW LITTLE CAPACITY FOR BEING ABLE TO RALLY THE PUBLIC IN BROAD-BASED SUPPORT OF ITS REGIME AND ITS PROGRAMS (THOUGH IT MIGHT GAIN SUPPORT BRIEFLY FOR AN ADVENTURIST MILITARY MOVE). FURTHERMORE, MANY PERUVIAN OFFICERS BELIEVE THAT A WAR WITH CHILE WOULD DETRACT FROM, IF NOT COMPLETELY DESTROY, THE GOALS AND PROJECTS

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OF THE PERUVIAN REVOLUTION.

F. PERUVIAN MILITARY EXPENDITURES ARE PRIMARILY BUT NOT EXCLUSIVELY DESIGNED TO OBTAIN A QUALITATIVE IMPROVEMENT OF EXISTING INVENTORY. PERU DOES NOT HAVE MANY MORE SHIPS AND PLANES IN SERVICEABLE STATUS THAN THREE, FIVE OR TEN YEARS AGO. IT HAS MODERNIZED ITS NAVY AND AIR FORCE GENERALLY ALONG THE LINES PRACTICED BY OTHER MAJOR SOUTH AMERICAN COUNTRIES. IN THE ARMY THERE IS, BY CONTRAST, BOTH A QUANTITATIVE AND QUALITATIVE GROWTH IN WEAPONRY.

G. PERU, CHILE AND BOLIVIA HAVE BEGUN TALKS ON REGIONAL DISARMAMENT -- AN INITIATIVE FIRST LAUNCHED BY PERU. OUR POLICY IS TO ENCOURAGE THESE NEGOTIATIONS IN A LOW-KEYED WAY. IT IS RECOGNIZED, OF COURSE, THAT BOTH CHILE AND PERU MAY MERELY BE PAYING LIP SERVICE TO THE CONCEPT OF REGIONAL DISARMAMENT. BOTH COUNTRIES APPEAR EAGER TO INCREASE THEIR ARMS PURCHASES, THUS LAYING THE

PSYCHOLOGICAL BASIS FOR A RBSMLGYISDRIRMS RACE. IF WE CONCLUDE THAT ARMS ACQUISITIONS ARE BECOMING EXCESSIVE, OUR PRESENT POLICY ASSUMES A MULTILATERAL FORUM AS THE CORRECTING INFLUENCE, RATHER THAN A PRIMARY ROLE, EITHER IN APPEARANCE OR FACT, FOR THE U.S. GOVERNMENT IN DEALING WITH THE PROBLEM.

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ACTION ARA-10

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C O N F I D E N T I A L SECTION 2 OF 2 LIMA 6542

H. THE ANNUAL USG CONTRIBUTION TO PERUVIAN MILITARY DEFENSE (\$9 MILLION FOR IMET, \$20.5 MILLION FMS CREDIT AND \$17.7 MILLION IN CASE SALES IN FY 1975) IS NOT A MAJOR PART OF PERU'S TOTAL ACQUISITION PROGRAM. THIS IMET/FMS IS 9.4 PERCENT OF THE BIENNIAL 1975-76 DEFENSE BUDGET OF \$871 MILLION, A FIGURE PUBLISHED IN THE JUNE 1976 "MILITARY INTELLIGENCE SUMMARY". THE PERUVIANS DO NOT SEE THIS U.S. CONTRIBUTION AS LARGE; ITS REDUCTION OR ELIMINATION WOULD LIKELY NOT ALTER SIGNIFICANTLY THE PERUVIAN ARMS ACQUISITION POLICY WHILE IT COULD SIGNIFICANTLY IMPACT ON OUR MILITARY RELATIONS. THE USSR AND VERY LIKELY OTHER SUPPLIERS SELL TO PERU ON CONCESSIONARY TERMS WHICH ARE MORE FAVORABLE THAN THOSE OF THE U.S.

4. ISSUE RESOLUTION

THE U.S. SHOULD CONTINUE ITS PRESENT LEVEL OF IMET/FMS WHICH

IS OF A MODEST SCALE. OUR PROGRAM SHOULD EMPHASIZE TRAINING OF PERSONNEL AND FORCE MODERNIZATION AS OPPOSED TO FORCE BUILDING. THE RESOLUTION OF OUTSTANDING INVESTMENT DISPUTES SHOULD NOT AFFECT THIS POLICY EXCEPT IN TERMS OF THE LEGAL REQUIREMENTS OF EXISTING LAWS AS THEY MAY COME TO BEAR UPON PERU/USG RELATIONS.
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5. REASONS

A. OUR MILITARY ASSISTANCE IS MOTIVATED PRIMARILY BY THE POLITICAL CONSIDERATION TO RETAIN AND EXPAND GOOD WILL AMONG THE PERUVIAN MILITARY ELITE. WE DESIRE THIS GOOD WILL TO OFFSET THE SOVIET RELATIONSHIP TO THE PERUVIAN MILITARY, TO MAINTAIN COMMUNICATIONS TO THE MILITARY ON OVERALL PERUVIAN/U.S. RELATIONS, AND TO PROTECT OTHER U.S. PRIORITARY POLICY GOALS. ANY PRECIPITATE SEVERING OF THE PRESENT IMET/FMS PROGRAM WOULD NOT TEST THAT GOOD WILL; IT WOULD DESTROY IT.

B. EARLIER DECISIONS OF THE USG TO QUALIFY OR WITHHOLD MILITARY ASSISTANCE TO PERU HAVE DEMONSTRATED THAT PERU WILL PROCEED TO ACQUIRE ITS WEAPONS FROM OTHER SOURCES. WE DO NOT THINK THAT ANOTHER CESSATION OF IMET OR FMS, OR DIPLOMATIC WARNINGS, WILL HAVE ANY GREATER, OR MORE POSITIVE, IMPACT UPON PERUVIAN POLICY. FURTHER, EQUIPMENT ACQUIRED FROM NON-U.S. SOURCES TENDS TO BE HARDER TO MAINTAIN DUE TO POOR LOGISTIC SUPPORT, THUS COSTING PERU MORE IN THE LONG RUN AND HAVING THE EFFECT OF DIVERTING FUNDS FROM OTHER USES.

6. ISSUE RESOLUTION: MINORITY VIEW

THE U.S. GOVERNMENT SHOULD REQUEST THAT MULTILATERAL LENDERS, THE IMF, AND THE U.S. BANKING COMMUNITY TAKE EVERY OCCASION TO EXPRESS CONCERN TO THE PERUVIAN MILITARY GOVERNMENT THAT PERUVIAN MILITARY PURCHASES FROM WHATEVER SOURCE THREATEN PERU'S ECONOMIC AND SOCIAL DEVELOPMENT OBJECTIVES AND SEVERELY WEAKEN THE GOP CASE FOR EXTERNAL DEVELOPMENT FINANCING AND DEBT RELIEF. WITHIN THE UNITED STATES, THE STATE DEPARTMENT AND TREASURY SHOULD TAKE THE LEAD IN ORCHESTRATING THIS POSITION, WHILE WITHIN PERU SELECTED ELEMENTS OF THE COUNTRY TEAM WOULD EMPHASIZE THIS THEME. TO THE EXTENT POSSIBLE, U.S. COMPANIES SEEKING TO SELL SOPHISTICATED ARMS SHOULD BE DISCOURAGED FROM VISITING PERU.

7. REASONS: MINORITY VIEW

A. WHILE RECOGNIZING THE LIMITATIONS OF MORAL SUASION, AN ORCHESTRATED AND COORDINATED POSITION SUPPORTED BY THE PRINCIPAL SOURCES OF ASSISTANCE TO PERU MIGHT GIVE THE GOP SERIOUS PAUSE
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BEFORE MAKING ADDITIONAL ARMS PURCHASES.

B. THIS COORDINATED POSITION SHOULD EMPHASIZE THAT ARMS PURCHASES WILL FURTHER ALIENATE PERU'S GENERAL PUBLIC, WHICH IS BEING ASKED TO SACRIFICE IN ORDER TO EFFECT NEEDED BUT UNPOPULAR ECONOMIC MEASURES. WE SHOULD ALSO EMPHASIZE THAT A NEGATIVE FAA SECTION 620(S) DETERMINATION IS A REAL DANGER WHICH COULD LEAD TO THE CESSATION NOT ONLY OF U.S. BILATERAL ECONOMIC ASSISTANCE, BUT ALSO TO U.S. GOVERNMENT OPPOSITION TO MUCH MORE SIGNIFICANT ASSISTANCE FROM THE IDB, AND FROM THE WORLD BANK WHICH HAS TAKEN THE LEAD, THROUGH THE CONSULTATIVE GROUP, IN OBTAINING FINANCING BY THE OECD NATIONS FOR HIGH PRIORITY INVESTMENT PROJECTS.

C. WHILE THE ALTERNATIVE ISSUE RESOLUTION IS, INDEED, SOMEWHAT PATERNALISTIC, SUCH A COORDINATED EFFORT MIGHT CONVINCE THE PERUVIAN MILITARY OF THE NEED TO SACRIFICE GUNS FOR BUTTER IN ORDER TO ENSURE EVEN MINIMAL SUPPORT FROM THE GENERAL POPULATION UNTIL AN IMPROVED FOREIGN EXCHANGE POSITION PERMITS RESUMED PURCHASES AND MODERNIZATION. THIS ALTERNATIVE COULD BE MADE MORE PALATABLE TO THE PERUVIAN MILITARY AND COULD HAVE GREATER PROSPECTS OF SUCCESS IF THEY COULD BE TOLD THAT A SIMILAR APPROACH IS BEING TAKEN VIS-A-VIS CHILE.
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